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ABSTRACT

This report provides parents with information on teaching their children about budgeting, saving, and careful spending as well as information on giving their children money, bonds, and stocks. Topics covered include: (1) participation of young children in family shopping; (2) money management skills developed through giving children an allowance; (3) savings accounts; (4) involvement of children in the family's financial planning; (5) part-time jobs; (6) checking accounts; (7) longer-term savings accounts; (8) investments; (9) consumer credit (use of parents' credit accounts, establishment of credit, and responsibilities and costs of credit); and (10) gifts of money, stocks, and bonds (gift taxes, informal trust and custodial accounts, United States Savings Bonds, and stocks and bonds). Information in this report is current at the time of printing, May 1983, but is subject to change. (DC)

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Money Management for Children and Parents

How do children learn about budgeting, saving, and careful spending? In this report, you'll find answers to this question as well as information on giving your children money, bonds, or stock.

Money is a resource and a tool. How wisely you use it depends on the attitudes and habits you have developed. You can help your children learn good "money sense" by teaching them about budgeting, saving, and thoughtful spending.

THE EARLY YEARS Children first learn about the use of money through your example. Remember, however, that they may need an explanation of basic principles that you take for granted. For instance, they may not understand how to count coins and bills, how to make a purchase, or what ownership means. Participating in such activities as shopping gives children an opportunity to learn these skills, and it helps them develop their decision-making ability.

THE IMPORTANCE OF EXPERIENCE Making careful decisions about money may seem difficult to young children, but it's a skill that can improve with experience. One way to give school-age children practice in handling money is to give them a regular allowance based on personal expenses such as lunch money or bus fare. Children can then learn to budget and to plan their spending. A small additional amount, to use as they wish, may help them learn to make decisions about whether to spend or save.

To help your children plan their spending, you might show them how to establish a simple budget. Children, like adults, have fixed expenses, such as lunch costs, and flexible expenses, such as the cost of gifts. By comparing their expenses with their income, children can develop an understanding of spending priorities.

SAVING Very young children may save their money just for the satisfaction of collecting coins. But when they're older, saving will be easier if they have a savings goal. In fact, the best time to discuss saving might be when they wish to make a special purchase. You can show them how their money adds up—a little at a time—through saving, until they have the amount they need.

Opening a Savings Account Older children can gain security for their savings and earn interest by placing their money in a regular savings account (sometimes called a passbook account). Policies about opening accounts vary among financial institutions. Your children may be allowed to have accounts in their own names; or, you may be required to be a joint owner. Often, a minimum amount must be deposited to open the account.

A Social Security number is required to open a savings account. If you open an informal trust account with your child, your Social Security number will be used, and you will be taxed on the interest the account earns. If you open a joint account with your child, you may use your Social Security number or your child's. In the case of a joint account, each of you will be liable for taxes on the share of the interest income that you are entitled to under state law.

If your child doesn't have a Social Security number, you can get application forms from many financial institutions or from any Social Security office. For more information on federal and state income tax regulations, you can call the local offices of the Internal Revenue Service (IRS) or the California Franchise Tax Board.

Opening an account also requires identification, such as a driver's license or a school identification card. In some cases, however, the identification requirement may be waived if you're a customer of the same financial institution.

You might explain to your children that their signatures on the savings account signature cards will serve as models for other forms they sign when using their accounts. Because children's handwriting changes as they grow older, it might be wise to have them make out new cards periodically.

You or the new accounts representative at the financial institution should explain the forms and procedures for savings deposits and withdrawals. If your children's accounts include a savings statement, you also might explain the information the statement provides. Report #2 in this series, *Ways to Save Your Money,* provides more detailed information on interest earnings.

INCREASED RESPONSIBILITY As your children mature, it may be a good idea to examine the kinds of financial decisions they're allowed to make. You may also wish to involve them in your family's financial planning. Whether or not you let them know the specifics of your family's income, introducing young people to the costs of running a household allows them to see how their personal expenses fit into the overall family budget. It also introduces them to financial responsibilities they may face in the future.

EARNING MONEY OF THEIR OWN Although many parents consider household chores an unpaid responsibility, others believe that paying their children for such tasks helps them understand the efforts and rewards of work. Also, being paid for small, extra jobs at home or around the neighborhood can be a child's first experience of financial independence.

Part-time Jobs If your children wish to work part time, there are certain legal factors to consider. For example, California law regulates the number of hours per day and per week a minor may work, as well as the specific hours of the day. State law also requires minors to have work permits in order to be employed. Minors who have graduated from high school or have been awarded a certificate of proficiency are exempt from these rules. Also, minors do not

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need work permits to do agricultural work on farms owned or operated by their parents or to perform odd jobs such as babysitting and gardening. And, in most cases, a work permit is not required for newspaper delivery. Work permits are issued by school authorities; for more information, check with your child's school.

There are also personal factors to consider. For instance, you might wish to discuss with your children how jobs will fit into their activity and family schedules.

Children may be required to file federal and state income tax returns. Generally, this depends on the amount of their income. If your children do file tax returns, you may still claim them as dependents if you provide more than half of their support and they're either under 19 or, for at least five months of the year, full-time students as defined by the IRS. Even if you claim them as dependents, they're still entitled to their own personal exemptions.

Your children might not earn enough to be required to file income tax returns. Still, money might be withheld for taxes from their earned income (such as wages). If so, they should file and claim the money withheld. They can get refunds even if you claim them as dependents on your federal and state income tax returns.

CHECKING ACCOUNTS A checking account can be useful when your children begin to manage sizable amounts of money or keep financial records.

A Social Security number and personal identification are requirements for opening a checking account. Some banks may require a minimum opening deposit or ask that checking customers be at least 18 years old. Other requirements and charges vary, depending on the type of checking account, so it's advisable for your children to shop around before deciding on a particular type. Because young people generally use fewer checks than adults, they may prefer an account that charges only for each check processed by the bank.

Your children may need some help in learning the basic procedures of writing checks, filling out deposit slips, maintaining check registers, and balancing their checkbooks. Reports #1 and #10 in this series, *How to Balance Your Checkbook* and *A Guide to Checks and Checking*, provide detailed information on checking procedures.

LONGER-TERM SAVINGS If your children are able to leave their savings on deposit more than a few months and can meet minimum deposit requirements, they might consider opening a time deposit account or a money market deposit account. A time deposit account pays higher interest rates than a regular savings account but has certain restrictions, such as an interest penalty for withdrawing money before the maturity date. A money market deposit account pays generally high interest rates that fluctuate with market conditions. With this account, your child may make withdrawals or deposits at any time. The account has some restrictions, however, such as limitations on transfers to other persons or accounts. Also, the account requires a minimum opening deposit of $2,500; and, a minimum average daily balance of $2,500 must be maintained for the account to earn the money market rates.

INVESTMENTS Entering the stocks and bonds market doesn't require large amounts of money. Your children can invest in such securities for $1,000 or even less. Investments can be risky and often require specialized knowledge. Usually, it's advisable to discuss your children's investments with a professional, such as a banker, broker, or accountant. You may also wish to consult an attorney. If your children are under 18, you'll probably serve as custodian of their investments, which means that you'll handle transactions such as buying, selling, and receiving interest or dividend payments. However, for tax purposes, your children are considered the legal owners and will be taxed on the income from their investments.

CONSUMER CREDIT As the use of consumer credit grows, it becomes increasingly important for your children to understand the rights and responsibilities of using credit.

Using Your Accounts Children under 18 generally can't obtain charge accounts or credit cards of their own, unless they are emancipated (legally considered adults, as is the case, for instance, if they're married). They may, however, be authorized users of your accounts. The usual authorization procedure is to write a letter to your creditor, explaining that your children are to be included as valid users of the account. You should enclose a copy of your children's signatures. Remember that once you've made this authorization, you're responsible for any charges your children make.

Establishing Credit Some creditors may provide special credit plans with different requirements for first-time credit users. Generally, however, your children will have to satisfy the same requirements that you do to be eligible for credit. Report #3 in this series, *How to Establish Credit*, discusses in greater detail the criteria for extending credit.

In some cases, first-time credit users may be required to have a creditworthy co-signer. If you co-sign, it may be easier for your children to establish credit and develop a credit record. But remember, as co-signer you share legal responsibility for payment.

Responsibilities of Credit Your children should be aware, first of all, of the costs of using credit. Specifically, they should understand the annual percentage rate (APR) they're paying and the finance charge. They should also know that, in general, the longer they take to pay what they owe, the more their total payment will be.

Your children should also understand the importance of making credit payments on schedule. Late payments may be recorded in their credit histories. Be sure they know that they must report lost or stolen credit cards to the card issuers. If they fail to do so, they can legally be required to pay up to $50 in unauthorized charges made on each missing credit card.

GIFTS OF MONEY, STOCKS, AND BONDS In accordance with the annual gift tax exclusion permitted under federal law, you and your spouse may each make gifts worth up to a certain amount to each of your children without incurring a gift tax. The maximum amount is $10,000 a year or $20,000 for a couple filing jointly. If you or your spouse wishes to make larger gifts, ask your attorney or accountant about the unified estate and gift tax credit.

A gift made under the Uniform Gifts to Minors Act is irrevocable, meaning that you give up all rights to the money, stocks, or bonds. If, however, you serve as custodian of the account, you have the legal authority to hold, manage, and invest the property for your children. They'll be taxed on the income from your gift, but there may be no tax at all if a child's unearned income is less than $1,000. (If you use the income from your gifts to support your children, you are taxed instead of them.)

Informal Trust and Custodial Accounts These accounts allow you to put money into a savings program for your children. With an informal trust account, you are considered the legal owner of the funds in the account, while the money in a custodial account legally belongs to your children. A custodial account generally is opened on the advice of an attorney.

U.S. Savings Bonds All U.S. Savings Bonds are registered and printed with the Social Security numbers of their owners. If your children do not have Social Security numbers, you may purchase bonds printed with the word "gift" and registered to your Social Security number. However, if you plan to buy bonds for your children on a regular basis, you should consider obtaining Social Security numbers for them and buying bonds in their names. The income from bonds purchased in this way can be taxed as your children's income. For more information, see report #2 in this series, *Ways to Save Your Money.*

Stocks and Bonds If you give gifts of stocks or bonds to children under 18 years of age, you must register the securities in your name or in the name of another adult as custodian for your children. If you use your children's Social Security numbers for the registration, the stocks and bonds—and their earnings—legally belong to your children and are taxable as their income.

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